NO. 278
DECEMBER 2023

ADB BRIEFS

Strengthening Foundations to Unlock Green Finance in the Lao People's Democratic Republic

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KEY POINTS

- The Lao People's Democratic Republic has unique comparative advantages in green growth, which are incorporated into its social and economic planning framework, but not yet embedded in the financial sector and public finance management policies.
- Macroeconomic pressures arising from unsustainable public debt and a weak Lao kip make the country vulnerable to shocks, including from volatility in commodity prices and changes in rainfall patterns, with climate change posing further risks to macroeconomic and financial sector stability.
- To support progress on its Nationally Determined Contributions to achieve the Paris Agreement objectives by 2030, as well as the Sustainable Development Goals, the Lao People's Democratic Republic needs to address its debt sustainability challenges, including constraints relating to institutional and technical capacities and regulatory gaps, to improve its creditworthiness for increasing access to domestic and international green finance.

INTRODUCTION

This Asian Development Bank (ADB) brief provides a snapshot of current efforts to pursue a greener growth path in the Lao People's Democratic Republic (Lao PDR), to mitigate the financial impacts that are anticipated under projected scenarios of climate change and natural resource degradation, and the challenges that the country faces in accessing finance to help avert these risks. It describes challenges to promoting development of a green financial sector, and how to mitigate risks and address constraints. It stresses the importance of addressing debt sustainability challenges to support progress on the Sustainable Development Goals (SDGs) targets and the country's nationally determined contributions (NDCs) to achieve the objectives of the Paris Agreement by 2030.

CHALLENGES

In its Ninth National Socioeconomic Development Plan, 2021–2025, the Government of the Lao PDR targets key goals for the country that include enhancing environmental protection and reducing disaster risks while also growing the economy and improving

Note: ADB recognizes "Hong Kong" as Hong Kong, China; and "Vietnam" as Viet Nam.
In this publication, "$" refers to United States dollars.

ISBN 978-92-9270-513-8 (print)
ISBN 978-92-9270-514-5 (electronic)
ISSN 2071-7202 (print)
ISSN 2218-2675 (electronic)
Publication Stock No. BRF230574-2
DOI: http://dx.doi.org/10.22617/BRF230574-2

livelihoods and well-being. The country's annual economic growth was high, averaging 8% in the decade to 2016, but the pandemic, vulnerability to climate and external shocks, and worsening macroeconomic imbalances—notably steep currency depreciation, high inflation, and rising public debt—moderated average growth from 2017 onward.[1] Its growth has been narrow, driven primarily by export-oriented, capital-intensive foreign investment in natural resources, largely hydropower and mining, and more recently in transport. The growth slowdown in recent years narrowed fiscal space, resulting in increased vulnerability to a range of economic, climate, environmental, and health shocks.

Macroeconomic pressures arising from unsustainable public debt and a weak Lao kip make the country vulnerable to shocks, including from volatility in commodity prices and changes in rainfall patterns, with climate change posing further risks. For example, with the onset of El Niño weather disturbances in 2023, Électricité du Laos Generation Public Company (EDL-Gen) is at risk of suffering revenue losses linked to lower water inflow in its basins for hydropower. In August 2022, heavy rains hit the country followed by a tropical storm that caused widespread floods and resulted in the limited availability of key farm inputs. In 2020, half of all farmers experienced disasters—drought, flood, animal disease, pest infestations—which reduced capacity to generate income by 20% or more for those affected. In 2018, Lao PDR suffered its most costly floods in a decade, with a post-disaster needs assessment estimating total damages of $371.5 million, equivalent to 2.1% of the GDP, and recovery needs estimated at $520 million. The Lao PDR is highly vulnerable to disasters triggered by natural hazards, with annual expected losses for flood events as high as 3.6% of GDP, making systematic risk reduction critical.[2] Furthermore, economic estimates of environmental and natural resource degradation exceed $800 million per annum.[3]

Due to high vulnerabilities, economic foundations need to be strengthened in order to unlock opportunities for growing the green finance sector and scaling up investments in flood risk management and disaster risk financing.[4] The country's public debt at critical level implies limited fiscal space to respond to challenges, which may see the scale of adverse impacts of future shocks increase. Addressing economic challenges and building greater resilience requires critical reforms to raise domestic revenue, transparent debt management, and strengthening financial sector stability, including in areas related to climate finance, among others.

The country has a robust planning framework for promoting resilient and sustainable economic growth, including the Green Growth Strategy to 2030, the National Strategy on Disaster Risk Reduction 2021–2030, and the country's NDCs to achieve the objectives of the Paris Agreement by 2030. The Lao PDR is planning to reduce its greenhouse gas emissions by 60% by 2030 from a baseline of 2000 and is targeting net zero carbon emissions by 2050.[5] Targets for forest conservation, greener production and consumption, and effective regulatory enforcement are outlined in the country's National Biodiversity Strategy and Action Plan for 2016–2025.[6] However, several of the planned targets will be challenging to achieve in the face of debt distress and other macroeconomic instability, both of which increase economic vulnerabilities and widen the gap between financial resources and development.

MITIGATING RISKS

Climate change and environmental degradation are recognized as a substantial threat to financial stability in many countries. Climate change could cause a 32% loss of Southeast Asia's gross domestic product (GDP) by 2100 under a high emissions scenario.[7] The economic impacts of climate change disproportionately affect women, children, and other vulnerable groups by exacerbating existing vulnerabilities related to livelihoods, health, safety, and access to resources.

Over 50% of the Lao population is active in the agriculture, natural resources, and rural development sector, for income, employment, and food purposes.[8] Further, 16% of GDP comes from the agriculture sector and a further 10% of GDP comes from the power sector, most of which is derived from hydropower.[9] Given how vulnerable these sectors are to climate factors, and because of the sectors' contribution to the overall economy, climate-related impacts on the economy may affect the financial sector and its stability.[10] Institutions that provided insurance or loans to individuals and businesses, which are then affected by changes in the environment or the climate, will likely see higher levels of claims and losses in their portfolios, with borrowers from large hydropower companies to smallholder farmers at risk of meeting their debt obligations. This affects domestic, international financial institutions, and multilateral development banks, including the ADB, through various transmission channels including physical and transition risks (Box 2).[11]

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1 Asian Development Bank. 2023. *Asian Development Outlook (ADO) September 2023.* Manila.
2 Government of the Lao PDR. 2018. *Post-Disaster Needs Assessment: 2018 Floods, Lao PDR*. Vientiane.
3 World Bank. 2021. *Lao PDR: the Health, Environment, and Sustainable Economic Recovery Nexus*. Washington DC. Note: GDP in current United States dollars was $15 billion in 2022. World Bank. 2023. *Macro Poverty Outlook for East Asia and the Pacific*. Washington DC.
4 Note: Not all of which necessarily constitutes "green finance"; disaster risk financing may also fund other recovery and reconstruction activities devoid of green.
5 Government of the Lao PDR. 2021. *Nationally Determined Contribution*.
6 Government of the Lao PDR. 2016 *National Biodiversity Strategy and Action Plan 2016–2025*. Vientiane: Ministry of Natural Resources and Environment.
7 ADB. 2023. *Asia in the Global Transition to Net Zero – Asian Development Outlook 2023 Thematic Report*. Manila.
8 Lao Bureau of Statistics. 2021. *The 3rd Lao Census of Agriculture 2019/2020 Volume 2*. Vientiane.
9 Changing rainfall patterns, more intense events, and longer droughts are expected to undermine electricity generation, with hydropower capacity factors forecast to drop by as much as 7% between 2020 and 2059 in the Lao PDR. The reduction in hydropower capacity is estimated against a baseline period of 1970–2000. International Energy Agency. 2021. Climate Impacts on South and Southeast Asian Hydropower. Paris.
10 Bank of the Lao PDR. 2021. *Annual Economic Report 2021*. Vientiane.
11 ADB recently published its first climate-financial disclosures report, providing an overview on progress made by the bank in analyzing and mitigating its own financial risks due to climate change.

Box 1: What is Green Finance?

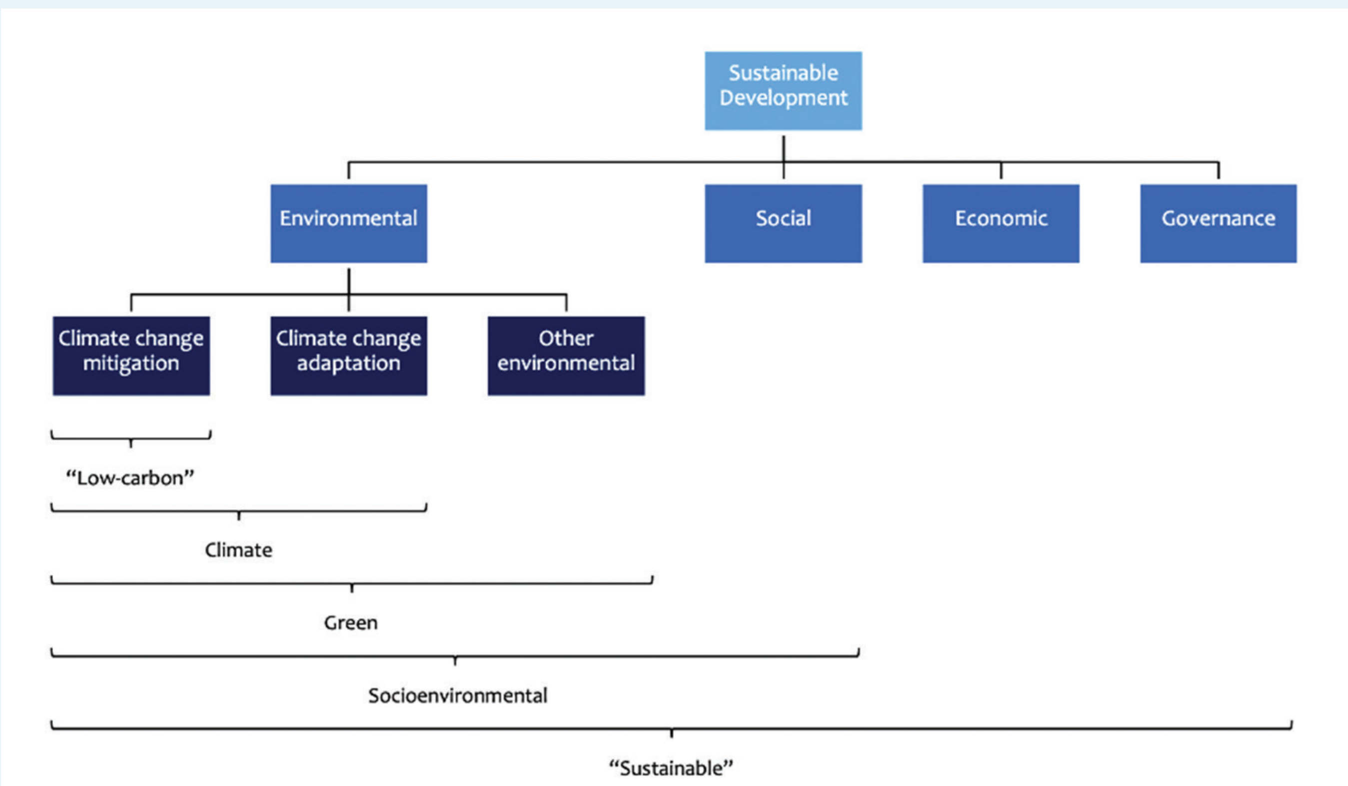
Green finance is recognized as an innovative new source of capital and an important opportunity to support economic growth for accelerating progress on the SDGs. Green finance encapsulates a broader sphere of activities than climate finance alone and can be defined as denoting all financing instruments, investments, and mechanisms that contribute to a "climate plus" approach, impacting both climate and environmental sustainability goals (Figure 1). At a broad level, it includes:

- **policy measures**, public and private, governing institutional conduct, transparency, and prudential risks.
- **financial instruments** for green investments, such as green bonds and loans, and associated credit enhancement and blending instruments.
- the **funding architecture**, including the global climate change and environment funds (Green Climate Fund, Global Environment Facility), as well as domestic mechanisms for delivery (such as the Lao Environment Protection Fund).

The impact of green finance is to embed environmental externalities in market transactions and decisions, support transparency to reduce risks and uncertainty, and reflect a longer time frame perspective for investment analysis. Green finance thereby supports progress on SDGs, particularly goals 13 (Climate Action) and 15 (Life on Land), while at the same time driving much needed economic growth.

Although there is currently no strategic framework for developing a green financial sector in the Lao PDR, efforts are underway to assess local market readiness, establish a taxonomy for classifying "green" activities or projects, and develop regulations for governing green bond issuances. Increasing domestic and international investment in green growth is already a major priority for the government. On the **domestic** side, improving local revenue generation and consolidation, targeting of budget allocations, curbing illegal logging and wildlife trade, and environmental fiscal reforms are either being implemented or proposed. To support access and strategic planning for **international** financing, the Lao Environment Protection Fund is being established as a National Accredited Entity under the Green Climate Fund.

Figure 1: A Simplified Schema for Sustainable, Green, and Climate Finance



Source: United Nations Environment Programme. 2016. *Inquiry into the Design of a Sustainable Financial System – Definitions and Concepts: Background Note.*

For a country so reliant on natural resources, it is therefore important that appropriate financial products including disaster risk insurance, are available to safeguard against climate risks.

The magnitude of risks to the financial sector from climate change and environmental degradation is uncertain. How future weather patterns will change, and how policies, institutions and economies will change globally and adapt are uncertain as well. In the Lao PDR, the impacts of **physical risks** include those related to changes in rainfall and temperature such as delays in the onset of the wet seasons, more intense rainfalls that results in flooding, and droughts that are linked to in uncontrolled burning in the dry season. Mountainous and upland regions in particular face threats from slash-and-burn agriculture, deforestation for major projects, logging, and land and forest degradation. Hydropower faces risks from less water flowing into its catchment areas. These have substantial impacts on economic infrastructure, agricultural production, energy generation, forestry assets, and rural livelihoods.

Increasing resilience to these impacts is a national priority. As natural capital is being depleted, it poses a significant risk to the country's growth opportunities, and challenges to achieving poverty reduction and sustainable development objectives. In the Lao PDR, the costs of environmental degradation that are well recognized include increased flood and drought risk, air and water pollution, riverine fishery impacts, and soil degradation. Therefore, a comprehensive climate change and related risks approach needs to be adopted. This includes building capacity to understand risk, including both financial and fiscal risk, considering future climate change and economic growth scenarios, and to appraise the economic cost benefit of climate and disaster risk reduction and adaptation measures as well as risk transfer solutions to the insurance and capital market. This will support the case for green investments and make its financing more resilient and sustainable.

The **transition risks** that can be associated with a global shift toward a lower carbon economy are less well acknowledged in the Lao PDR. Global efforts to mitigate climate change can reduce physical risks globally but can also increase the transition risk for all economies, if they cause rapid or unanticipated changes in the values of assets, commodities, or market structure. Changes in asset values or increased costs of doing business for affected companies can lead to increased financial risk to exposed lenders. The impact of these transitions is likely to be higher on lower-income countries such as the Lao PDR.

The ability of the Lao PDR to mitigate physical and transition risks, and its achievement of related SDG targets, will depend on the success of its policies and plans to restore debt sustainability as well as its approach to encouraging and implementing green finance.

ADDRESSING CONSTRAINTS

The Financing Strategy for the Ninth NSEDP notes that the investment needs for supporting the country's progress on its NDCs to achieve the objectives of the Paris Agreement by 2030 as well as the SDGs are substantial, and that contributions from all sources of finance—domestic and international, public, and private—will be required. It further notes that several targets of the plan will be challenging in the face of debt distress and other macroeconomic challenges, which have increased economic vulnerabilities and widened the gap between financial resources and development needs.

Key challenges for the Lao PDR in mobilizing green finance include public debt at a critical level, institutional and technical capacity constraints, and regulatory gaps.

Fiscal Constraints

The Lao PDR's public and publicly guaranteed debt—a large portion of which is external— was reported by the government at 112% of GDP in 2022, up from 90% in 2021. Average annual debt servicing obligations over 2023–2027 are high, estimated at $1.3 billion, equivalent to 8% of GDP. High debt service amid low revenue collections reduces the availability of funds to finance public services, including adaptation measures to strengthen resilience against climate change and disasters. The high level of debt is not only crowding out fiscal space for public

Box 2: Transmission Channels of Climate Risk on the Finance Sector

There are two main recognized transmission channels through which climate change and environmental degradation can contribute to financial risk:

Physical risks. Changing climate contributes to shifting weather patterns and more frequent occurrences of typhoons, heatwaves, fires, floods, and storms, the resulting destruction, displacement, disruption of manufacturing capabilities, trade flows, and supply chains, affect income streams, growth potential, and even debt servicing abilities.

Transition risks. These arise as society moves toward low-carbon alternatives. Traditional industries that rely heavily on fossil fuels are increasingly being shunned or facing greater scrutiny and regulatory burden. The changes in asset values and elevated costs of doing business for corporates that have obtained loans from banks can result in risks to financial stability.

Source: AMRO. 2022. *Climate Change: How far along the green path are ASEAN+3 Banks?*

investment expenditures, but also affecting the country's access to capital markets.

Although some elements of green growth and climate change targets hold attractive private sector investment potential (e.g., energy efficiency, renewable energy, or green infrastructure development), public benefit outcomes usually require an additional public contribution to financing, which is difficult within the Lao PDR's constrained fiscal envelope. Private sector loans to support such projects are affected by the country's sovereign credit rating. For example, many international lenders require access to investment-grade banking institutions as an essential bankability requirement to reduce risks. This entails an investment grade credit rating from at least one of the international rating agencies, with the Lao PDR's sovereign credit rating currently rated below investment grade by Moody's, Fitch Ratings, and Thai Rating and Information Service. It is therefore essential to strengthen economic fundamentals to improve the country's creditworthiness in line with the vital five reforms to secure macroeconomic stability outlined in the "Reform Roadmap" to support the implementation of the National Agenda on Addressing Economic and Financial Difficulties that was submitted by the World Bank and ADB to the government (Figure 2). This includes pursuing options for the restructuring of public debt while also strengthening tax revenue mobilization, through, for example, introducing new pollution taxes and revising the regulations governing investment to curb tax exemptions.

Regulatory Guidance

The Bank of the Lao PDR (BOL, the central bank) is a member of the Sustainable Banking and Finance Network (SBFN), with aims to integrate environmental and climate change risk management in business operations and increase capital flows to activities with positive impact.[12] Nevertheless, the concepts of sustainable finance remain new to both regulators and market participants in the Lao PDR.

As noted in a recent green bond market survey, an absence of regulatory guidance and resources is also impeding market development. Initiatives underway are expected to raise awareness and build capacity for relevant stakeholders, but this will take some time to achieve results. The Lao Securities Commission Office has initiated a Capital Market Development Strategy, 2021–2025, which includes studying implementation mechanisms and legislation required for issuing green, social, and sustainability bonds in the domestic market.

The Association of Southeast Asian Nations (ASEAN) Taxonomy for Sustainable Finance was developed in 2021 (and Version 2 in 2023) to serve as a common building block to support communication and coordination on labeling for economic activity and financial instruments, and to foster sustainable finance adoption by ASEAN member states.[13] This provides a useful common language and an overarching guide for the Lao PDR as it develops domestic regulations.

Figure 2: The Vital Five: Reforms to Secure Macroeconomic Stability in the Lao PDR

Source: World Bank and Asian Development Bank. 2021. *Reform Roadmap to Support the Implementation of the National Agenda on Addressing Economic and Financial Difficulties*. Vientiane.

12 The Sustainable Banking and Finance Network is a voluntary community of financial sector regulators, central banks, ministries of finance, ministries of environment, and industry associations from emerging markets committed to advancing sustainable finance for national development priorities, financial market deepening, and stability.

13 ASEAN. 2021. *ASEAN Taxonomy for Sustainable Finance*.

Institutional and Technical Capacity

A recent survey of the green bond market in the Lao PDR noted that the green bond market in the Lao PDR is in a nascent stage. It also noted that nearly 60% of institutional investors are willing to explore the possibility of investing in green bonds but lack the technical capacity and resources to do so.[14] Approximately 80% of local underwriters reported that their clients are interested in issuing green bonds but require additional assistance and guidelines to launch new products. Additional capacity building support from regulators and development partners is necessary to grow a sustainable green bond market, alongside development of the corporate bond market.

The underdeveloped green finance sector is also a key constraint on agriculture. In 2020, only 26% of farm households took out loans from banks, village development funds, and microfinanciers. Several factors constrain financial inclusion in the Lao PDR, including limited information which makes it challenging for financial institutions to extend appropriate financial products to farmers.

A limited local capacity, knowledge, and awareness of green finance further restrains the design and development of projects. Common gaps include a lack of familiarity with green financial instruments, limited capacity to identify and design green projects, and a lack of technical capacity to assess and mitigate climate risks from projects. Third-party technical expertise from companies in specialized fields such as green finance assessment and verification, monitoring and evaluation is not readily available in the domestic market, and it remains more expensive to source from international providers.

TOWARD A MORE SUSTAINABLE PATH

A strengthening of the country's economic fundamentals is needed to unlock green finance resources. This includes pursuing fiscal reforms to strengthen tax revenue mobilization, along with complementary structural policies to facilitate greater private sector employment and growth and boost foreign exchange earnings.[15] Such actions are in line with the recommendations of the 9th NSEDP Financing Strategy, which included a matrix of priority actions to enhance the country's access to green financing including:

(i) institutional and private sector capacity building for future issuance of green bonds as a tool to mobilize resources for specific environmental objectives or projects;
(ii) green budgeting to support the assessment of the environmental impacts of fiscal policy as well as facilitating costing of environmental and climate priorities for more evidence-based budget allocations;
(iii) innovative fiscal reforms, including pollution taxes to generate new revenues and revising the regulations governing investment to curb tax exemptions; and
(iv) green procurement to support the mainstreaming of sustainability priorities into procurement practices across government, as well as capacity development.

The Government of the Lao PDR is taking steps to enhance the country's access to sources of green financing, including the preparation of a work program by the BOL and International Finance Corporation.[16] This work will start with a market readiness assessment to review the current framework for green finance and identify opportunities for potential green financing products. A substantive output is expected to be the development of a "national green taxonomy"—a classification framework for determining which economic activities can be considered 'green' and therefore eligible for financing or support, or subject to tracking, verification, and other regulation. Established global and regional frameworks (including the SDGs and the ASEAN Sustainable Finance Taxonomy) can inform the development of the Lao PDR's approach. Further examples can be drawn from Xayaburi Power's refinancing through green bonds in 2022 (Case Study 1), with the potential to be replicated.

These efforts will also build on the Lao PDR's existing and earlier involvement in regional and international initiatives in green and sustainable finance. For example:

(i) The BOL can capitalize on its engagement with the SBFN by moving forward with preparation of a country progress report, including a review of economic risks for the country, regulatory settings that will enhance stability, and the financial sector's contribution to achieving climate change objectives.[17]
(ii) Ongoing steps to establish the Lao Environment Protection Fund, and progressively, other national funds, as an Accredited Entity under the Green Climate Fund are expected to support the country's direct access to global resources over coming years but will take some time to yield results.

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14 Asian Development Bank. 2022. *Green Bond Market Survey for the Lao PDR*. Manila.
15 IMF. 2023. *Lao People's Democratic Republic: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Lao PDR*.
16 Bank of the Lao PDR. 2022. *A New Partnership between the Bank of Lao PDR and International Finance Corporation to Boost Green Finance*. Vientiane.
17 SBFN Country Progress Reports document and catalog each member country's efforts and progress in enhancing the sustainability of their financial sectors.

Case Study 1: Xayaburi Power—Refinancing Through Green Bonds

Xayaburi Power Company Limited (XPCL) is a joint-venture independent power producing company registered in the Lao People's Democratic Republic (Lao PDR) that received a concession to design, develop, construct, and operate the Xayaburi Hydroelectric Power Plant. Its shareholders include three leading power companies in Thailand (CK Power Public Company Limited, Electricity Generating Public Company Limited, and Natee Synergy Company) with combined shareholding of 80%, and EDL Generation Public Company from the Lao PDR with shareholdings of 20%. It is the first large-scale project on the mainstream of the Mekong River within the Lao PDR and the lower Mekong basin. The project is a "run-of-river" type hydropower plant where the outflow from the project is equal to the inflow into its impoundment.

The total cost of the project is $3.25 billion, of which 80% was financed by a syndicated loan provided by six Thai banks, which include four commercial banks: Bangkok Bank, Kasikorn Bank, Krungthai Bank, and Siam City Bank.

XPCL started construction work in late 2010. Commercial operation date was achieved in October 2019. The project has a total installed capacity of 1,285 megawatts for an average annual energy generation of 7,400 gigawatt-hours (GWh). Out of this, 7,100 GWh is supplied to Electricity Generating Authority of Thailand and the remaining portion of around 300 GWh is supplied to Électricité du Laos (EDL), a state-owned enterprise wholly owned by the government.

Thailand released its sustainable financing framework in July 2020 with guidelines on eligible green project categories.[a] In early 2021, the Climate Bonds Initiative (CBI) released its Hydropower Criteria, including run-of-river projects, enabling such projects to use CBI-certified climate and/or green bonds to finance or refinance debt.[b] In 2022, XPCL issued a green bond in the Thai market in the amount of B10 billion ($270 million).[c] This followed publication of the company's green bond framework.[d] The bonds were rated by Thai Rating and Information Services (TRIS) at "BBB+", while XPCL has a company rating of "A-" with a "stable" outlook. The proceeds of the bond issuance are being used to refinance a portion of the bank and shareholder loans that were used to develop the Xayaburi Hydroelectric Power Plant.

A second-party opinion issued by DNV Business Assurance Australia Ltd validates that the hydropower project is an eligible green project under the green bond framework, and that it contributes to certain Sustainable Development Goals (SDGs). These are SDG 7 (affordable and clean energy) from increased energy production through expanded infrastructure and technology (Target 7.b) and an increase of renewable energy in the overall energy mix (Target 7.2); SDG 3 (good health and well-being) from the local community health interventions; and SDG 8 (decent work and economic growth) from increased economic growth (Target 8.1), higher economic productivity (Target 8.2) and job creation (Target 8.3).[e]

This successful issuance demonstrates a precedent for the Lao PDR, for both private companies and state-owned enterprises to finance or refinance through green bonds. Projects in the Lao PDR that produce renewable energy through hydropower or wind and solar technology, as well as sustainable forestry operations, could follow a similar model. Enhancements to domestic regulatory oversight, appropriate monitoring and verification standards, and increasing local technical capabilities would support this potential.

a Government of Thailand. 2020. *Sustainable Financing Framework*. Bangkok: Public Debt Management Office.
b Climate Bonds Initiative. 2021. *Hydropower Criteria*.
c K.Y. Boey. 2022. *Xayaburi dons green credentials*. IFR Asia Magazine. 30 June.
d Xayaburi Power Company Ltd. 2021. Green Bond Framework.
e DNV Business Assurance Australia Ltd. 2022. *Second Party Opinion on Xayaburi Power Company Limited's Green Bond*.

AVENUES FOR FURTHER ACTION

There is a need for enhancing institutional capacity within those relevant government ministries and agencies that would govern and implement green finance reforms, particularly the Ministry of Finance, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, Ministry of Industry and Commerce, and Ministry of Agriculture and Forestry. The BOL would also have a critical role in green finance instruments. Given the breadth of agencies involved, and the requirement for coordinated activities, it is possible that establishing a department with an overarching coordination role, perhaps within the Prime Minister's Office, could support a systematic approach.

Given the constraints on public finances, support for greater mobilization of private sector solutions will continue to be crucial for the Lao PDR to achieve its green growth and climate change objectives and accelerate progress on SDGs related to environmental sustainability. However, private sector finance may remain constrained due to perceptions of risk related to regulatory uncertainties and financial viability as well as low credit ratings. Public–private partnerships in green development projects may be made more economically viable through partnering with international finance institutions and regional development banks (Case Study 2). Rigorous project assessment, environmental and social safeguards, and gender mainstreaming add additional value and encouragement to private sector project partners. Blended and syndicated financing products and credit enhancement instruments can help to unlock the supply of private capital that can make a tangible impact on green growth trajectories for the Lao PDR.

Most importantly, action is needed to address macroeconomic instability across key reform areas to raise domestic revenue and enhance debt management, to improve the governance of public and public-private investments, and to strengthen financial sector stability.

Case Study 2: Monsoon Wind Power Project—Using Blended Financing to Improve Project Bankability

The 600-megawatt Monsoon Wind Power Project will set up and finance a wind farm located in the Sekong and Attapeu provinces in the southern part of the Lao People's Democratic Republic (Lao PDR). It will be the first wind power project in the Lao PDR and the largest (in terms of generation capacity) in Southeast Asia. It will also be the first cross-border wind farm in Asia, with all the power to be purchased by Vietnam Electricity under a 25-year power purchase agreement signed in 2021.

The project will help the Lao PDR to achieve its Sustainable Development Goal 7 targets on increasing the share of renewable energy, promoting international cooperation and investments for clean energy. It is expected to save up to 19 million tons of greenhouse gas emissions over its lifetime, providing a substantial source of clean renewable energy supply to Viet Nam to help meet the country's growing energy demand. Social and economic benefits for the Lao PDR will include local employment, improved infrastructure, increased regional connectivity, and revenues through collection of royalties, lease payments, and taxes.

The Asian Development Bank (ADB) was appointed as mandated lead arranger for project financing of totaled $692.55 million. It is providing an A-loan of $100 million from ADB's ordinary capital resources, a B-loan of $150 million with other financiers, $50 million concessional financing comprising $20 million from ADB's Leading Asia's Private Infrastructure Fund and $30 million from the Canadian Climate Fund for the Private Sector in Asia, and a grant from the Asian Development Fund's Private Sector Window of $10 million. The loan structure facilitates the involvement of a wider investor base to the project, while ADB's rigorous environmental and social impact assessment procedures provide a level of project scrutiny that reduces risk and improves confidence for the financiers.

The project benefits from highly skilled sponsors and crowds in quality financial investors, opening opportunities for knowledge spill overs that could help to foster learning and triggering further innovation throughout the economy. The project sponsors include ACEN Renewables International, BCPG, Impact Electrons Siam, Mitsubishi Corporation and SMP Consultation, while ADB leads a consortium of eight lenders that include AIIB, Hong Kong Mortgage Corporation, Japan International Cooperation Agency, Kasikornbank, as well as Export-Import Bank of Thailand. Joining the project under ADB's B-loan tranche are commercial banks SMBC and Siam Commercial Bank.

Source: Asian Development Bank. 2023. *ADB Signs Loan for First Cross-Border Wind Power Project in Asia, First Plant in Lao PDR and Largest in Southeast Asia*. Manila.

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